

# Update on the Illinois and MSA Economies and the Housing Market

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**Illinois Association of Realtors, Peoria, January 26, 2011**

# The Reality

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- ❑ Illinois lost 400,000 jobs in the current recession but Illinois never recovered from 2000-2001 recession
- ❑ US recovered in February 2005 (now, of course, is well below levels of 2000)
- ❑ Both national and Illinois unemployment rates beginning to decline but job growth is still well below the pace needed for a sustained recovery
- ❑ Battle in Washington will create some uncertainty with tension between advocates of greater federal role being challenged by fiscal conservatives wanting deficit reduction as main priority
- ❑ Concern about a “lost decade” parallel to that in Japan

# The Reality

- ❑ Current data reveal potential for a “double-dip” in the recovery process but would be erroneous to extrapolate from one month’s data
- ❑ Since the beginning of the recession in Dec 2007, Illinois has posted negative job changes 24 times and positive job gains nine times through December, 2010. The state of Illinois now has a net loss of 371,300 jobs since the beginning of the recession.

<b>Dec 2010 Negative</b>		<b>Oct 2010–Nov 2010</b>		<b>Last 12 months</b>		<b>Nov 2010</b>
	<b>Total non-farm employment</b>	<b>Growth Rate %</b>	<b>Number of Jobs</b>	<b>Growth Rate%</b>	<b>Number of Jobs</b>	<b>Shadow U.R. *</b>
	Nation	0.03	39,000	0.65	842,000	12.7%
	RMW	-0.15	-27,000	0.14	26,400	14.3%
	Illinois	-0.05	-2,600	0.59	32,900	11.4%

# The Reality

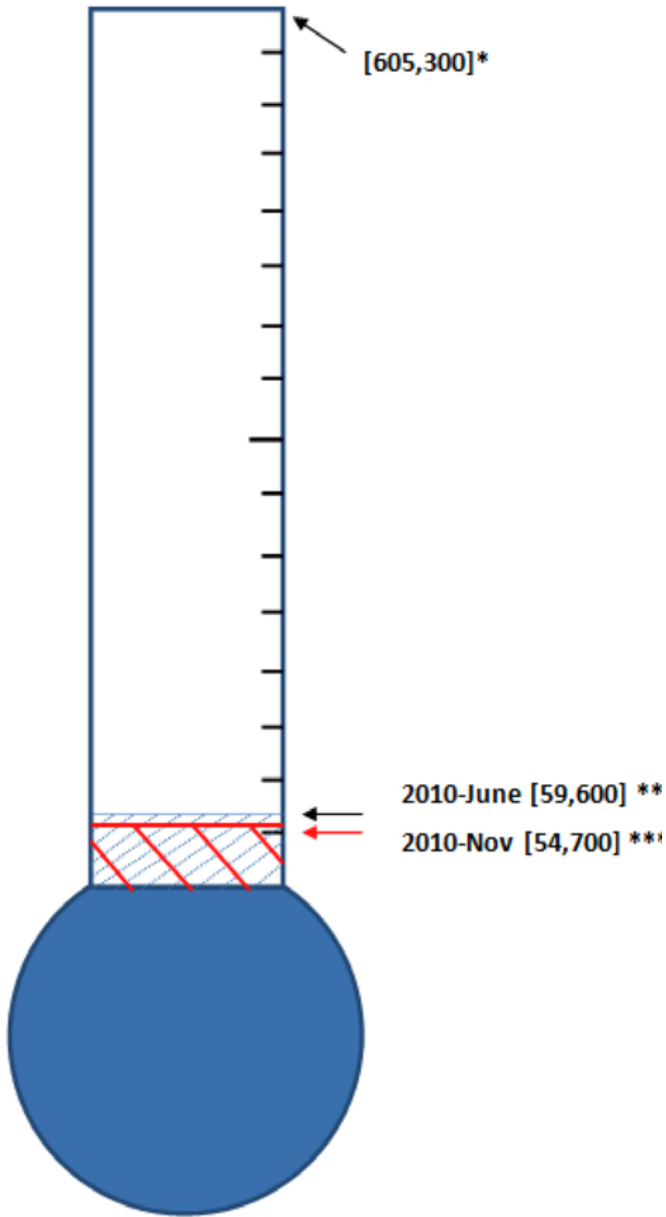
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- ❑ State is 446,600 below prior peak (November 2000)
- ❑ “translates” into loss state income tax revenue of almost \$6 billion over the 10 years
- ❑ Before this, longest recovery was 8 years
- ❑ Current employment in Illinois matches that for April, 1997
- ❑ Illinois has 5 of 10 sectors with employment levels below those of 1990
  - ❑ Manufacturing, Information, Construction, Trade, transportation & utilities, and Financial activities

# The Reality

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- ❑ Illinois has only enjoyed 3 years since 1980 when its employment growth rate exceeded the US – and all were before 1990
  - ❑ State typically enters recessions after US (3-6 months) and exits much later (1-4 years)
  - ❑ Since 2000, only one year in which employment growth was >50,000: December 2010 year-over-year change +46,300
  - ❑ Preliminary December data indicate smaller contraction in November (-1,600) but loss of -9,400 in December
  - ❑ If Illinois economy turned round in 2011, how long would it take to recover.....
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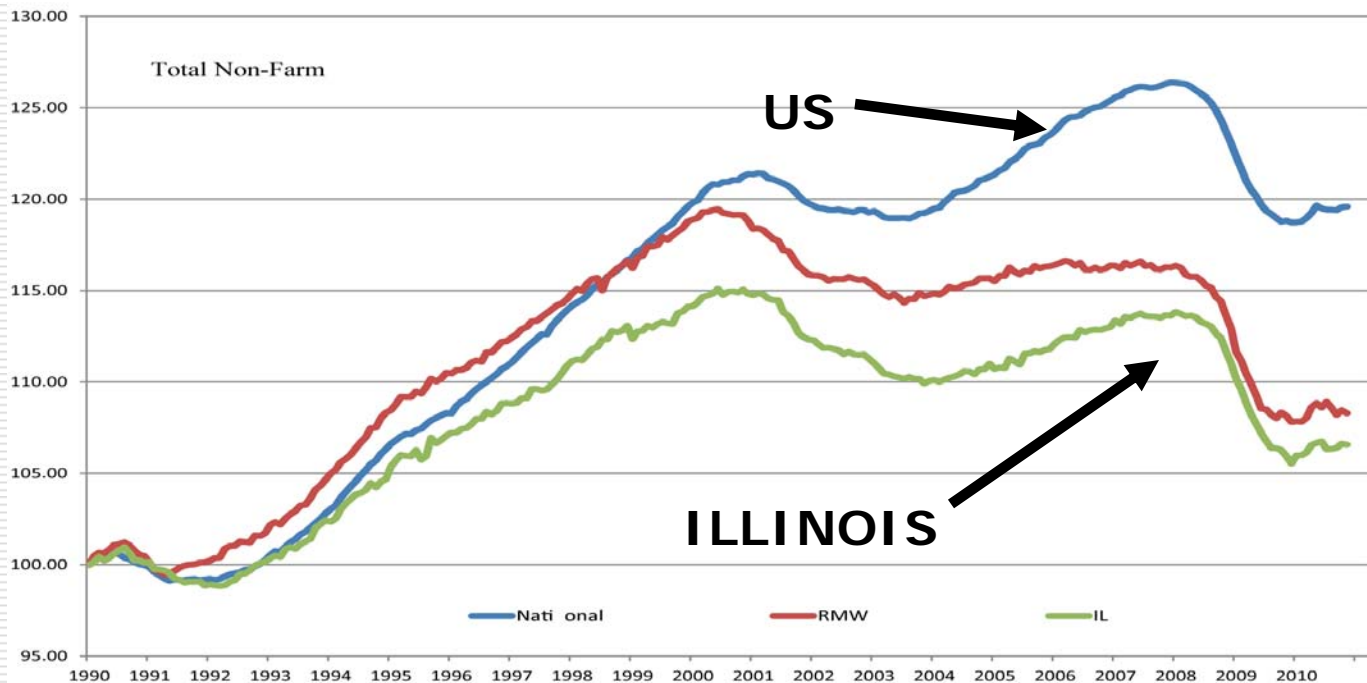
Illinois Recovery Scenarios		
To Recover	Growth Rate	
	At the point of 2010-June	At the point of 2010-Nov
In 5 years	109,100 jobs/year	110,100 jobs/year
In 8 years	68,200 jobs/year	68,800 jobs/year
In 10 years	54,600 jobs/year	55,000 jobs/year
In 15 years	36,800 jobs/year	36,700 jobs/year

# The Response from Springfield

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- ❑ Failure to address structural problems in the state's economy – bickering at the margin
  - ❑ Tax increase supported by many business groups (but not at the level enacted) provided it was accompanied by spending cuts
  - ❑ However, both sides of the aisle fail to see the whole picture
    - ❑ Debate is not between “pro business” and “pro labor”
    - ❑ Need a “pro economy” perspective
  - ❑ Between 1977 and 2005 jobs creation in existing activities matched those in start-ups; in some years, over 2/3rds of new job creation was in existing firms
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# Illinois and the National Economy



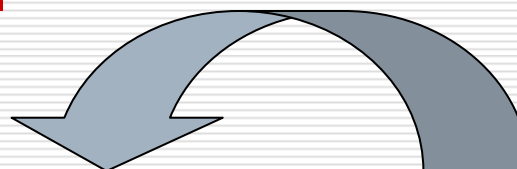
Since early 1990s, Illinois' growth rate fallen behind the US and Rest of the Midwest, but converging with the latter

Through December 2010, Illinois had added jobs at <33% US rate since 1990

# Illinois and the National Economy

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## Comparison of Economic Structure, 2004



	Illinois	US	Differences
Natural Resource & Mining	0.17%	0.22%	0.05%
Construction	5.03%	4.61%	-0.42%
Manufacturing	12.13%	12.62%	0.49%
Trade, transportation & utilities (TTU)	20.24%	19.70%	-0.54%
Information	2.25%	2.06%	-0.18%
Financial activities	6.98%	7.17%	0.19%
Professional & business services	13.25%	13.39%	0.14%
Education and Health Services	12.35%	11.93%	-0.43%
Leisure & hospitality	9.12%	7.76%	-1.36%
Other Services	4.36%	3.91%	-0.45%
Government	14.12%	13.63%	-0.49%

**Differences  
between  
Illinois  
and US are  
trivial**

# Illinois and the National Economy

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- ❑ Yet, Illinois:
    - ❑ Enters recessions after US and recovers after US
    - ❑ Grows at slower rate
  - ❑ Export dependence highly concentrated:
    - ❑ Very dependent on Rest of Midwest as:
      - ❑ Source of inputs
      - ❑ Market for products (40% domestic exports)
    - ❑ Has >36% of international exports going to Canada and Mexico
-

# How has the Illinois Economy Changed?

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## □ Three important characteristics:

1. State is hollowing out – typical establishment is now less dependent on sources of inputs within the state and on markets within the state ---- ripple effects of change within the state are now smaller than 20 years ago

2. Structure of production is changing – fragmentation is now a characteristic of production

□ The value chain is now longer

□ Firms are organizing production to exploit economies of scale in individual plants in specialized component production and shipping to other plants to add further components

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# How has the Illinois Economy Changed?

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## Fragmentation

- ❑ The value chain can be long, complex and involve production co-ordination across many states and or countries
- ❑ Main result: state becoming more interdependent at the same time they are becoming more competitive in attempting to retain or attract parts of the value chain



# How has the Illinois Economy Changed?

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- Three important characteristics:
    3. The organization of production is changing
      - More establishments are part of multi-regional and multi-national enterprises
      - Decision-making – on location of new activity, introduction of new production lines and services – is now more often removed from the location of production
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# Illinois and the Midwest Economy

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- Domestic trade still far more important than international trade for the Midwest states but significant share of Midwest interstate flows end up in international exports
- Dependency on the other Midwest states prominent
- Midwest export trade to other Midwest states in 2007 was \$450 billion – would rank 7<sup>th</sup> in World

	(\$ million)			%	%	% Domestic
	Domestic	Foreign	Total	Foreign	Domestic	Midwest
IL	\$399,913	\$48,896	\$448,809	10.89%	89.11%	32.40%
IN	\$252,023	\$25,956	\$277,979	9.34%	90.66%	33.82%
MI	\$226,875	\$44,555	\$271,430	16.41%	83.59%	32.29%
OH	\$369,824	\$42,562	\$412,386	10.32%	89.68%	27.62%
WI	\$172,125	\$18,825	\$190,950	9.86%	90.14%	33.19%

# Illinois and the Midwest Economy

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- Decomposition of international trade reveals strong Canada and NAFTA dependency

Decomposition of International Trade, 2007							
	Total	Canada	% Canada	Mexico	% Mexico	NAFTA	% NAFTA
	\$ billion	\$ billion		\$ billion		\$ billion	
IL	\$48.896	\$13.471	27.55%	\$3.629	7.42%	\$17.100	34.97%
IN	\$25.956	\$10.804	<b>41.62%</b>	\$2.605	10.04%	\$13.409	<b>51.66%</b>
MI	\$42.562	\$19.796	<b>46.51%</b>	\$5.206	12.23%	\$25.002	<b>58.74%</b>
OH	\$44.555	\$25.817	<b>57.94%</b>	\$2.995	6.72%	\$28.812	<b>64.67%</b>
WI	\$18.825	\$5.896	31.32%	\$1.481	7.87%	\$7.377	39.19%
Midwest	\$180.794	\$75.784	<b>41.92%</b>	\$15.916	8.80%	\$91.700	<b>50.72%</b>
US	\$1,148.198	\$248.888	21.68%	\$135.918	11.84%	\$384.806	33.51%

Dependency >40% highlighted in bold

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# The “Costs” of Interdependence

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## Impacts of Job Losses in Illinois

	Job Losses	Percentage of Indirect Impacts
Illinois	-419,000	
Indiana	-14,000	5.98%
Michigan	-11,000	4.70%
Ohio	-12,000	5.13%
Wisconsin	-9,000	3.85%
Rest Midwest Total	-46,000	19.66%
Rest of US	-188,000	80.34%
Total	-653,000	100.00%

# The “Costs” of Interdependence

## Spillover Effects of Jobs Losses in Midwest Percentage Distribution in other states

Change in  
state

Impacts in

	IL	IN	MI	OH	WI	Rest of Midwest Total	RUS
IL	-	5.98%	4.70%	5.13%	3.85%	19.66%	80.34%
IN	9.36%	-	6.19%	12.00%	2.33%	29.88%	70.12%
MI	5.78%	5.73%	-	13.10%	5.06%	29.66%	70.34%
OH	4.54%	6.47%	8.24%	-	1.98%	21.24%	78.76%
WI	7.91%	3.64%	8.35%	5.00%	-	24.91%	75.09%

Job losses in Illinois from downturns in other MW states

# Midwest Forecasts

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- Forecasts here were generated with support from the Institute for Work and the Economy with funding from a grant awarded by the U.S. Department of Labor's Employment and Training Administration to the Midwest Innovation Initiative.
  - Given Illinois' significant integration with other Midwest economies, forecasts of the larger region provide a sense of the challenge ahead
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# Draft Baseline Forecasts [1]: GRP

	Past 15 Years (1992~2007)	Global Insight Forecasts (2007~2040)	MW2REIM Forecasts (2007~2040)	MW6REIM Forecasts (2007~2040)
US	3.1 %	2.4 %		
MW	1.8 %		1.6 %	1.7 %
<b>IL</b>	<b>2.0 %</b>			<b>1.7 %</b>
IN	2.1 %			1.5 %
MI	1.7 %			1.9 %
OH	1.4 %			1.7 %
WI	2.3 %			1.8 %
<b>ROUS</b>	<b>3.3 %</b>		<b>2.8 %</b>	<b>2.8 %</b>

Note : 1. DRI forecasts are used as main exogenous (independent) variables both in MW2REIM and MW6REIM.

2. MW2REIM forecasts for MW variables are also used as main exogenous (independent) variables in MW6REIM.

3. MW6REIM forecasts for MW variables are derived by summing up the

19 forecasts

for five states (i.e. IL, IN, MI, OH, and WI).

# Draft Baseline Forecasts [4]: Total Jobs

	Past 15 Years (1992~2007)	Global Insight Forecasts (2007~2040)	MW2REIM Forecasts (2007~2040)	MW6REIM Forecasts (2007~2040)
US	1.8 %	N / A		
MW	1.1 %		0.7 %	0.7 %
<b>IL</b>	<b>1.2 %</b>			<b>0.8 %</b>
IN	1.2 %			0.4 %
MI	0.9 %			0.8 %
OH	1.0 %			0.6 %
WI	1.4 %			0.7 %
<b>ROUS</b>	<b>1.9 %</b>		<b>1.3 %</b>	<b>1.3 %</b>

Note : 1. DRI forecasts are used as main exogenous (independent) variables both in MW2REIM and MW6REIM.

2. MW2REIM forecasts for MW variables are also used as main exogenous (independent) variables in MW6REIM.

3. MW6REIM forecasts for MW variables are derived by summing up the forecasts for five states (i.e. IL, IN, MI, OH, and WI).

# Draft Baseline Forecasts [5]: Personal Income

	Past 15 Years (1992~2007)	Global Insight Forecasts (2007~2040)	MW2REIM Forecasts (2007~2040)	MW6REIM Forecasts (2007~2040)
US	3.1 % (DRI) 2.6 % (BEA)	2.8 %		
MW	1.7 %		1.6 %	1.6 %
<b>IL</b>	<b>2.0 %</b>			<b>1.8 %</b>
IN	1.9 %			1.2 %
MI	1.3 %			1.6 %
OH	1.3 %			1.5 %
WI	2.2 %			1.6 %
<b>ROUS</b>	<b>2.8 %</b>		<b>2.6 %</b>	<b>2.6 %</b>

Note : 1. DRI forecasts are used as main exogenous (independent) variables both in MW2REIM and MW6REIM.

2. MW2REIM forecasts for MW variables are also used as main exogenous (independent) variables in MW6REIM.

3. MW6REIM forecasts for MW variables are derived by summing up the forecasts for five states (i.e. IL, IN, MI, OH, and WI).

# How Bad Will It Get?

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- ❑ Probably see continued erosion of state's competitive position (dropped from 4<sup>th</sup> to 15<sup>th</sup> in terms of per capita income in the last 15 years)
- ❑ Job growth for 2011 remains uncertain – exacerbating the pressure on state revenues
- ❑ Current account deficit now assumed to be \$14b with \$80+b in unfunded pension liabilities
- ❑ Recent income tax increase will address some but not all of the state's fiscal problems
- ❑ Concern about how other states will seek to exploit this increase in luring expansion outside Illinois

# MSA Update

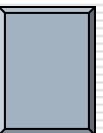
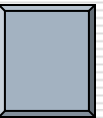
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- MSA indices are two months behind current month (since many of the input data are not released at the same time)
  - Current forecasts reveal the influence of a slow down in the Illinois and national economies
  - Gap between all MSAs and Chicago remained reasonable constant over the recession but the forecast suggests a convergence around or just above long term trends
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# MSA Update (2)

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- Some specific MSA notes
- All other MSAs category includes all MSAs except one highlighted, so performance changes
  - Bloomington-Normal
    - Outperformed other MSAs over the last year and expected to continue to do so but at lower rates
  - Champaign-Urbana
    - After underperforming other MSAs over past year, will track them for most of the next 12 months with some greater spurts in early 2011



# MSA Update (3)

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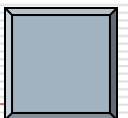
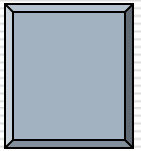
## Some specific MSA notes

### Davenport-Rock Island-Moline

- Outperformed the other MSAs over the past 12 months but the forecast for the next twelve months suggest growth will be at or below that for peers

### Decatur

- Underperformed peers over past 12 months; greater gap between peers and Decatur over next 12 months but convergence towards end of the period



# MSA Update (4)

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## Some specific MSA notes

### Peoria

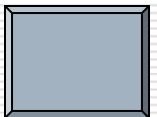
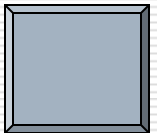
- After two years of above-peer performance, next twelve months suggests Peoria will track its peers

### Rockford

- Last 6 and next 6 months, underperformed peers but converge on peers in mid/late 2011

### Springfield

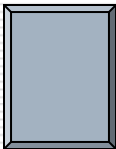
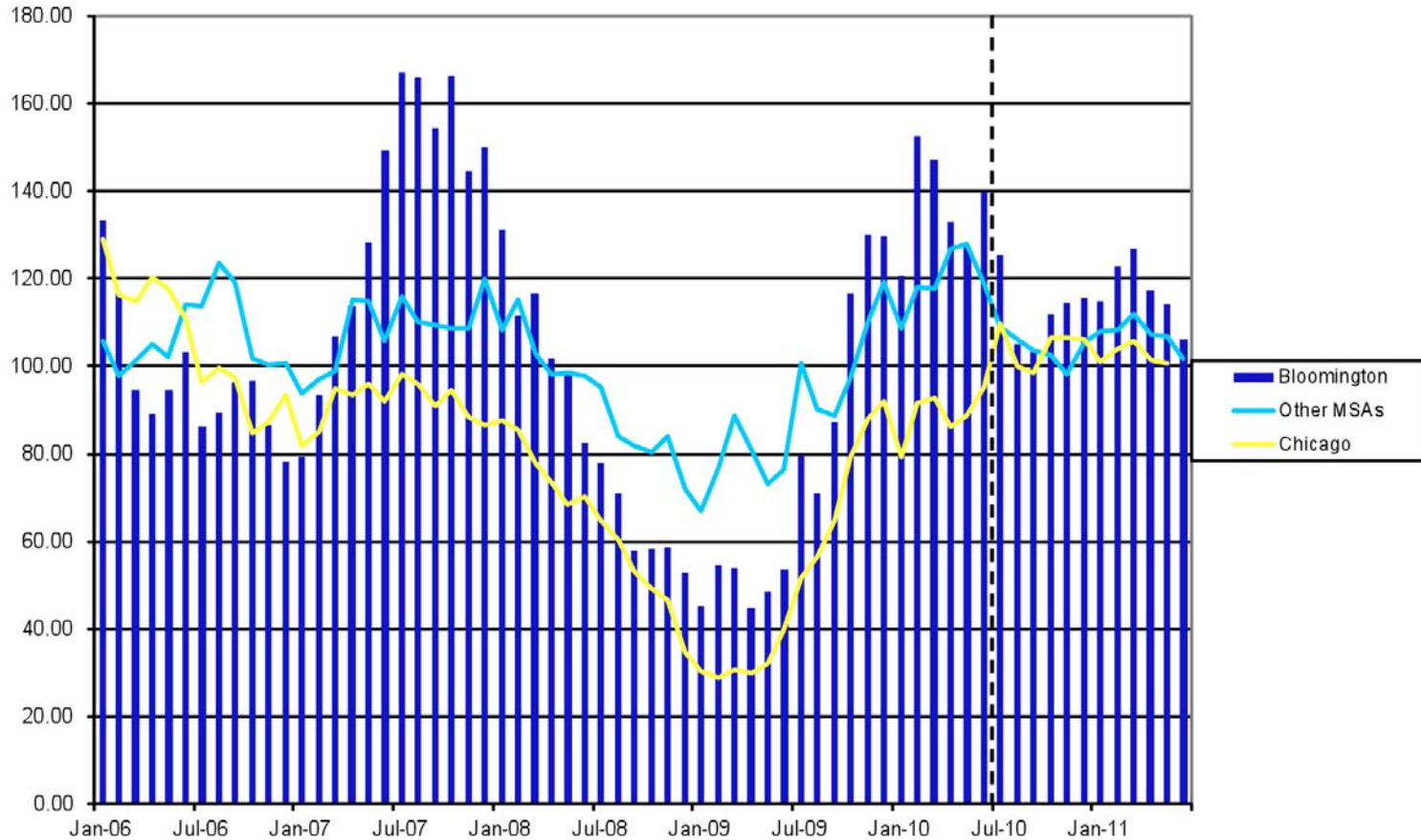
- Tracked Chicago last 2 years; stronger growth than peers over most of next 12 months but peers converge on Springfield by end of 2011
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# Bloomington-Normal

Current	140.04		
	1 month	3 month	1 year
Historical	127.27	147.07	53.52
Forecast	125.43	103.28	105.99

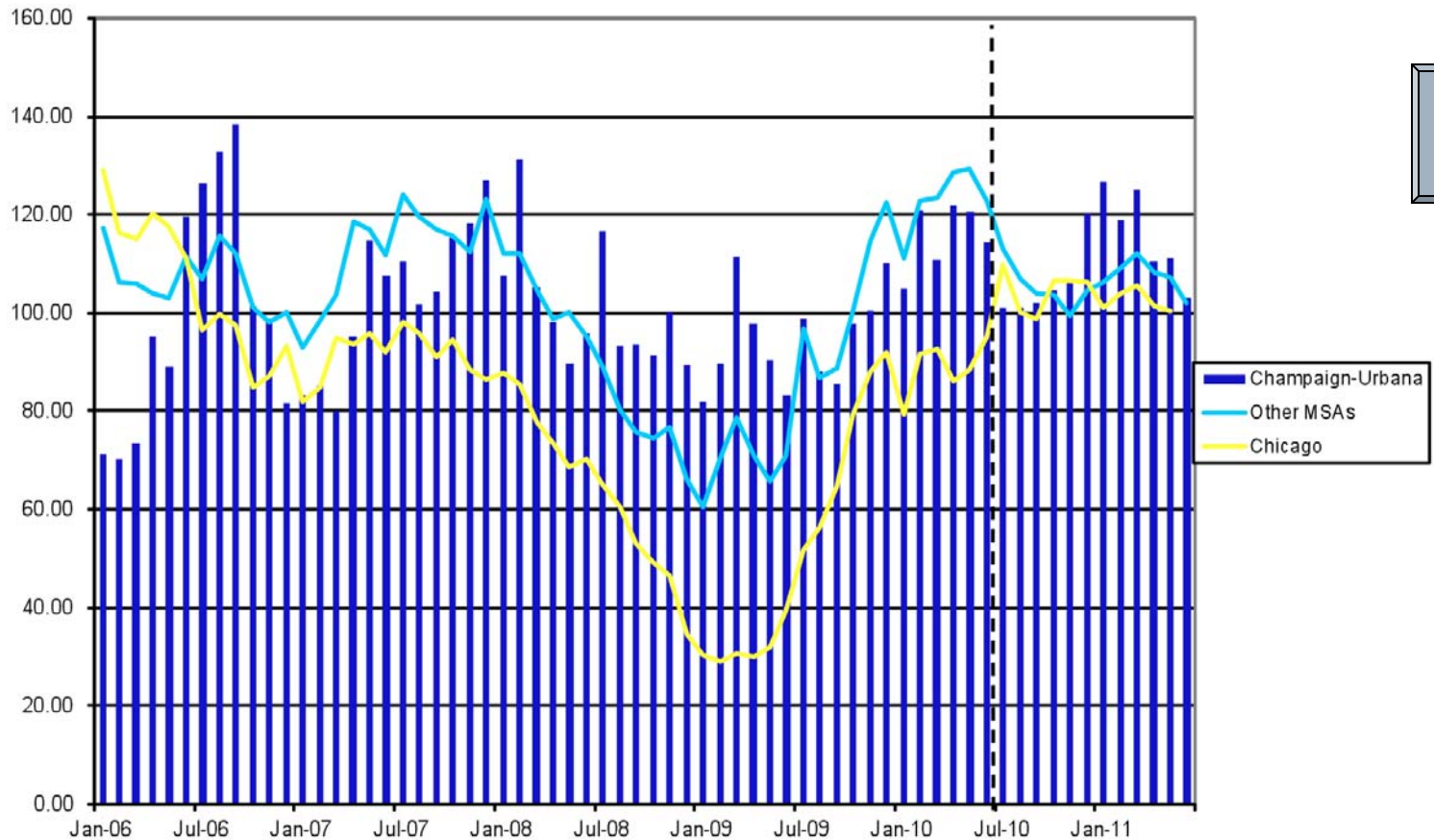
Bloomington - Normal MSA



# Champaign-Urbana

Current	114.25		
	1 month	3 month	1 year
Historical	120.55	110.86	83.15
Forecast	101.18	102.18	102.99

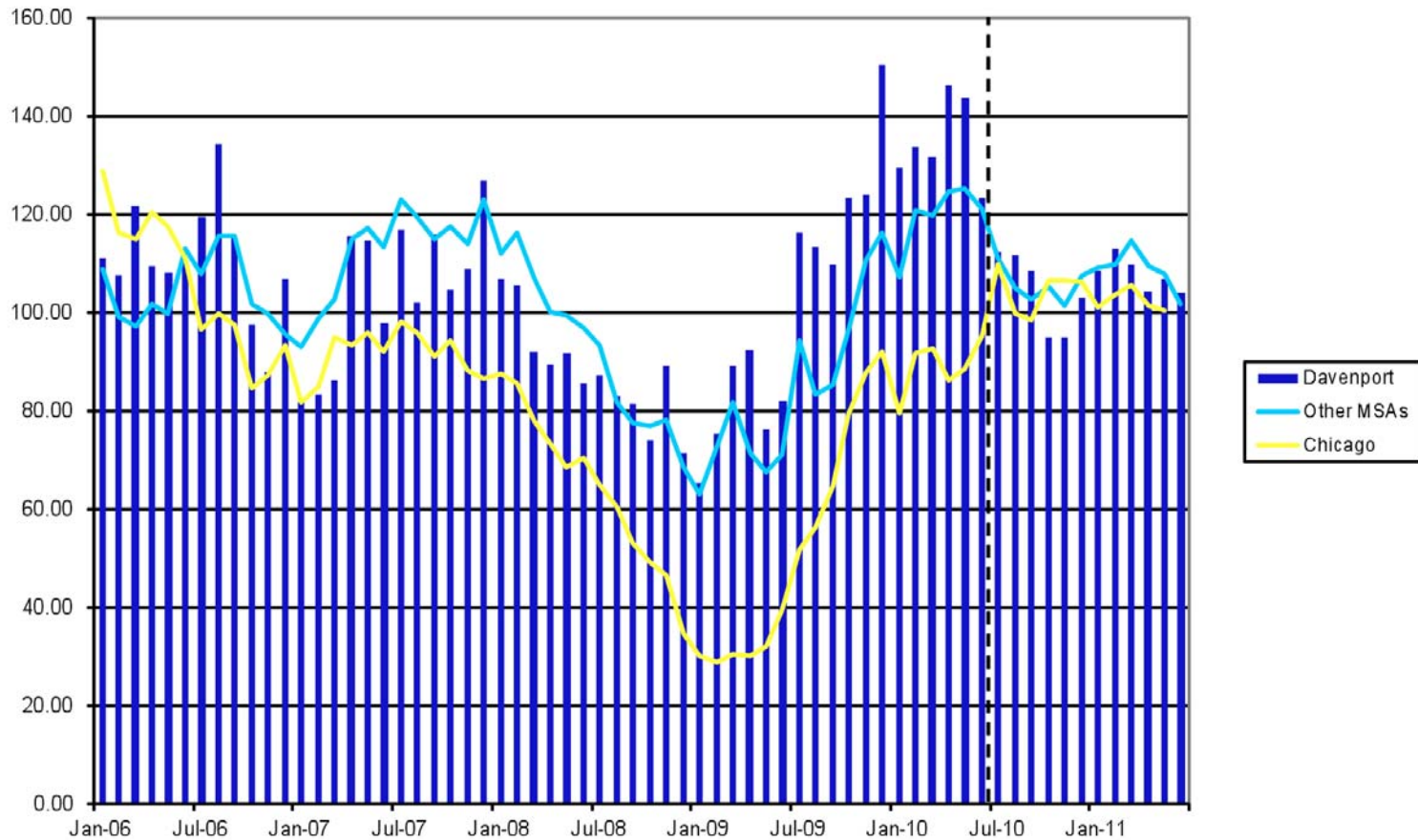
Champaign - Urbana MSA



# Davenport-RI- Moline

Current	123.40		
	1 month	3 month	1 year
Historical	143.70	131.64	82.12
Forecast	112.44	108.53	104.15

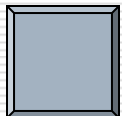
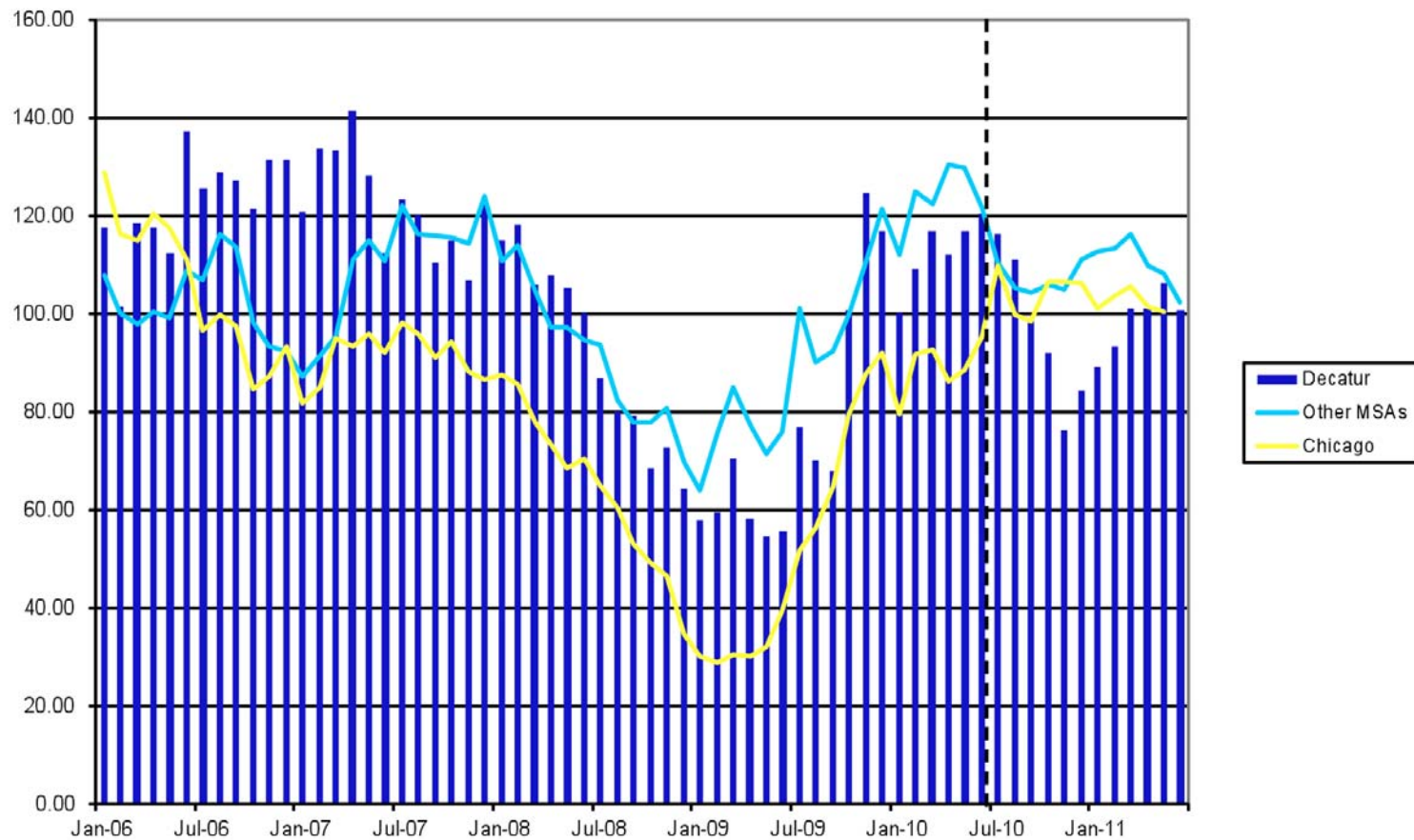
Davenport - Rock Island - Moline MSA



# Decatur

Current	120.46		
	1 month	3 month	1 year
Historical	116.82	116.90	55.56
Forecast	116.20	98.66	100.73

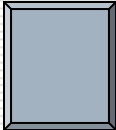
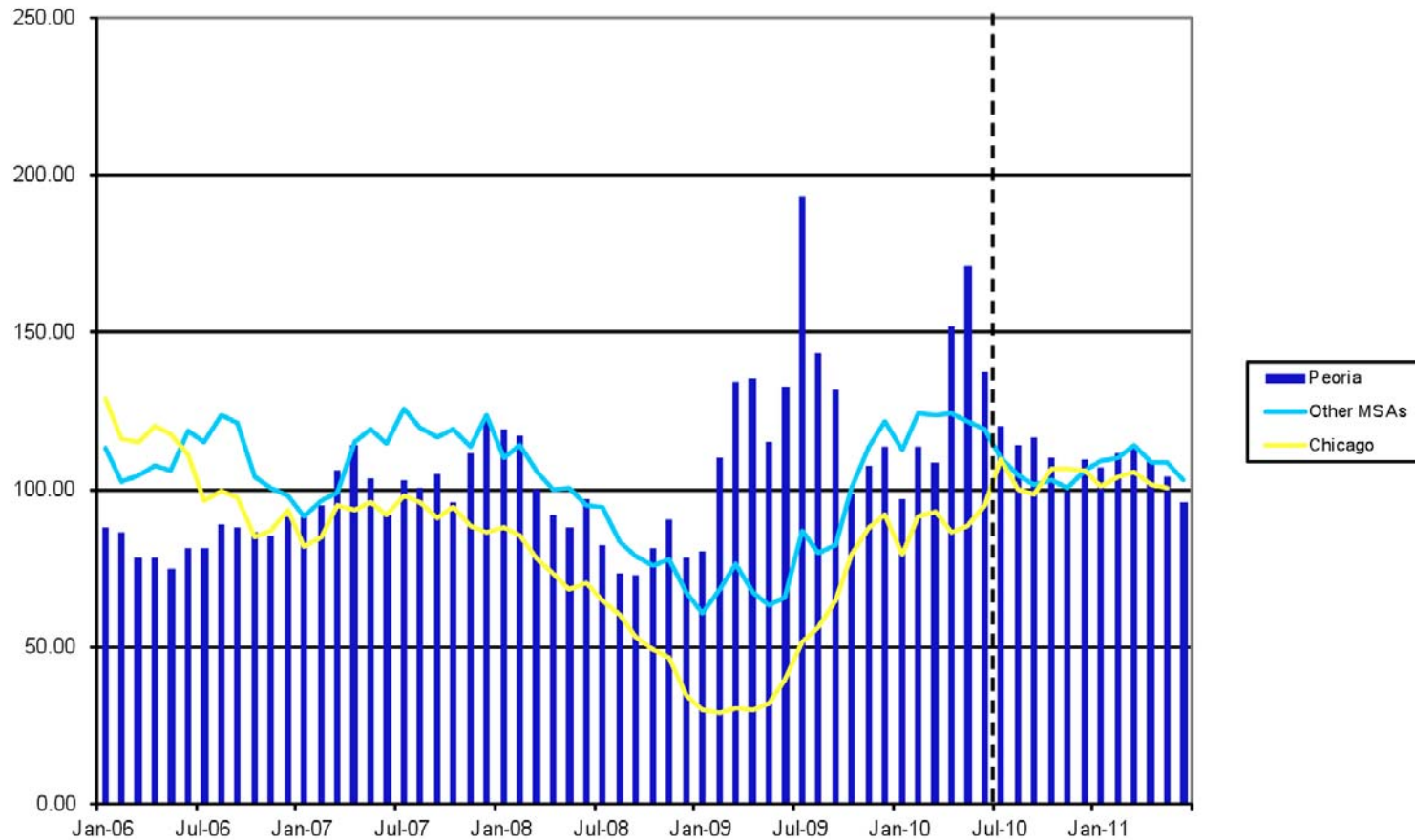
Decatur MSA



# Peoria

Current	137.50		
	1 month	3 month	1 year
Historical	171.33	108.83	133.03
Forecast	120.21	116.84	96.21

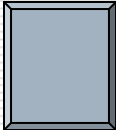
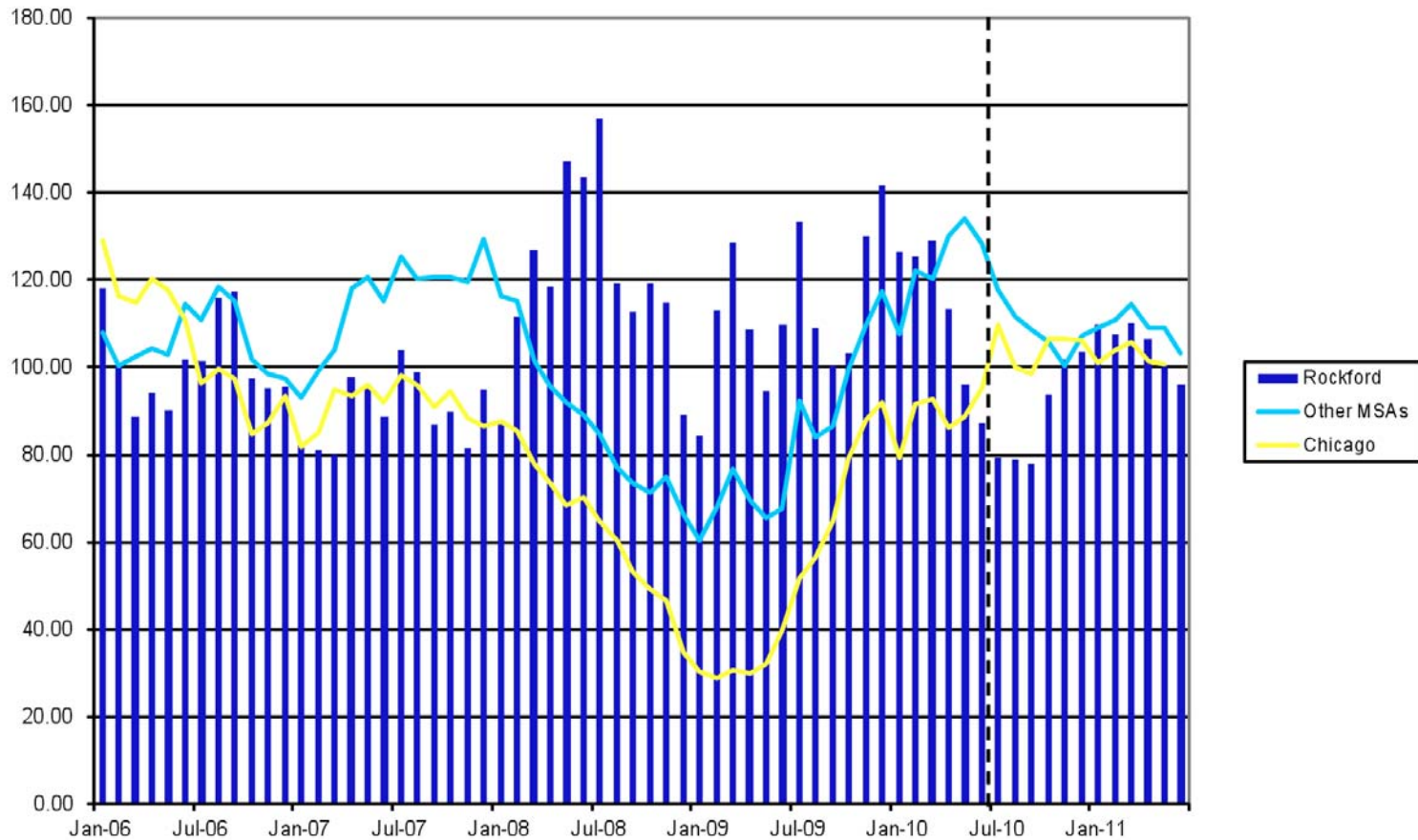
Peoria MSA



# Rockford

Current	87.19		
	1 month	3 month	1 year
Historical	95.85	129.05	109.85
Forecast	79.27	77.73	96.15

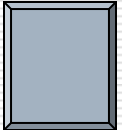
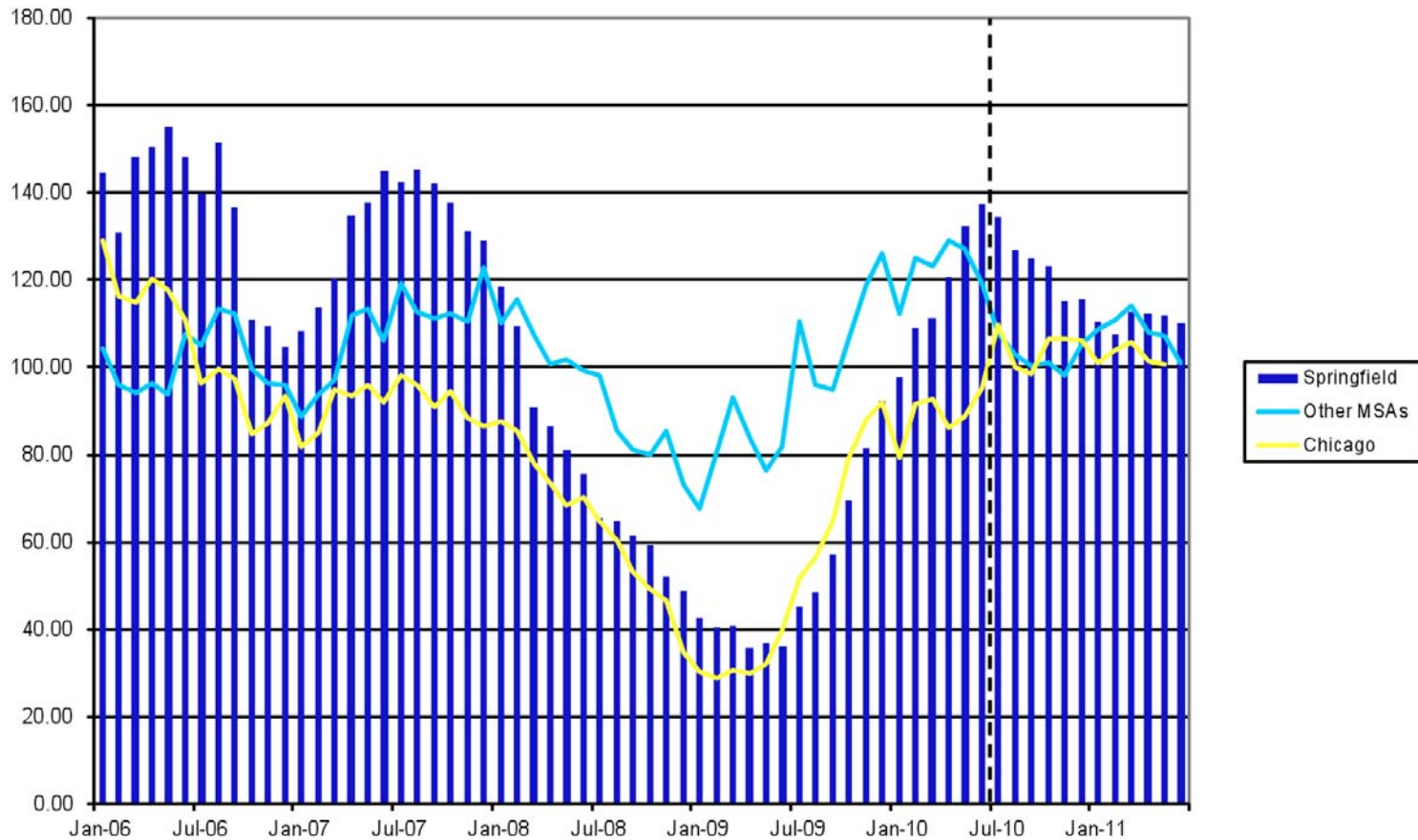
Rockford MSA



# Springfield

Current	137.20		
	1 month	3 month	1 year
Historical	132.24	111.13	36.07
Forecast	134.31	125.17	110.19

Springfield MSA



# When Will It Get Better?

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- ❑ Impacts of stimulus programs – both federal and state – suggest only a modest affect on the economy
  - ❑ Concern that the state will exercise fiscal discipline necessary to retire deficit without curtailing strategic investments in human and physical infrastructure
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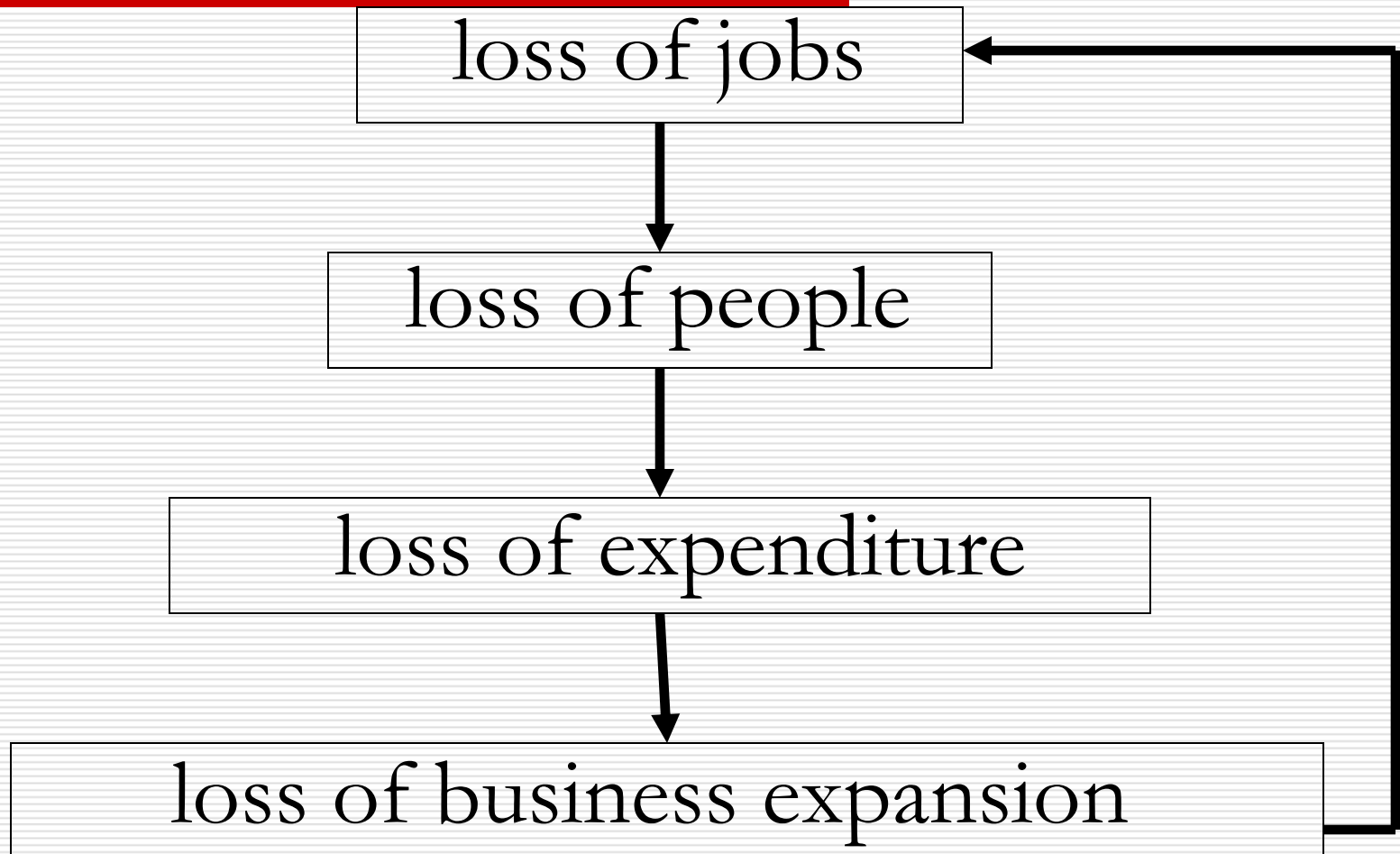
# Challenge

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- ❑ Illinois enjoys a Gross State Product in excess of \$600 billion yet spends virtually nothing on economic research on the economy
  - ❑ State faces a long-term problem of economic structural change exacerbated by government corruption
  - ❑ People are voting with their feet – net migration drains \$1.6 billion from the state's economy each year
    - ❑ Out-migrants enjoy higher per capita income than in-migrants
    - ❑ This erosion has continued for >10 years and contributed to decline in state's position in US
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# Challenge

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# Housing Market

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- ❑ Sources of demand for housing market
    - ❑ New time buyers – special credit programs worked for a while but not sustainable
    - ❑ Housing turnover – people upsizing or downsizing
    - ❑ Job relocation
    - ❑ Retirement
  - ❑ Sources of Supply
    - ❑ Housing turnover, job relocation and retirement
    - ❑ New construction
    - ❑ Shadow inventory
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# Housing Market

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- ❑ Federal stimulus program had a positive impact on sales in the first quarter of 2010 but after June, sales “fell off a precipice.”
  - ❑ REAL estimated that the “true” impact on sales in Illinois was smaller than estimated by Government Accountability Office
  - ❑ While 84,559 homebuyers in Illinois put in a claim for the Federal Home Buyer Tax Credit, only 25,504 sales were actually boosted by the incentive
  - ❑ Rest, would have occurred anyway – and many of the sales were accelerated from later in the year
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# Housing Market

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- ❑ Turnover generating fewer sales as consumers become more risk adverse
  - ❑ Job relocation still important source of demand but fewer people changing jobs and still more people moving from employment status to unemployment (or part-time) further dampening housing demand
  - ❑ Retirees finding value of existing home declined c/w extensive time on the market (>13 months in IL) caused many to remain in IL (and rest of Midwest) – also had negative impact on housing markets in retiree locations (AZ, FL)
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# Housing Market

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- ❑ Supply side issues equally challenging
- ❑ New home construction decreased dramatically and this has helped reduce supply of homes for sale in most markets
- ❑ Major issue – problem of the shadow inventory
  - ❑ Foreclosed properties
  - ❑ Properties that are “under water” – short sales
- ❑ In some months, distressed properties have accounted for between 25-35% of sales with prices 10-20% (or more) below comparable properties – accounts for continued downward pressure on prices even when sales increase
- ❑ Debate about impact of properties under water – many analysts believe extent of the problem exaggerated since the degree of distress is often small

# Housing Market

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- ❑ Typical IL county experiences 11% turnover in households each year (5% in and 6% out)
  - ❑ Further 6-12% change houses within the same county
  - ❑ Rates tend to be higher in metropolitan counties
  - ❑ Average transaction value on sale is about \$24,000 (payments to realtors, bank loan origination fees, state and county taxes, fix up costs)
  - ❑ Generates about \$5.5b annually through ripple effect
  - ❑ This is in addition to the construction impacts associated with new homes
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# Housing Market: Next Twelve Months (1)

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- ❑ General consensus of housing analysts points to continued decline in prices albeit at more muted rates in 2011 than previous 3 years (e.g. 0.17% compared to 1.13% in 2010)
  - ❑ Last quarter of 2010
    - ❑ Annual growth in sales (comparing month in 2010 with same month in 2009) showed decreases but moderating
    - ❑ Month-over-month sales negative in October and November but up >10% in December
    - ❑ 65% sales in 4Q 2010 in IL were properties <\$200K (54% in Chicago)
    - ❑ Inventory increases with price: 9 months on market for <\$100K; over 20 months if >\$700K
  - ❑ Forecasts for 2011 very sensitive to boost in sales in 1Q of 2010
    - ❑ Stimulus affect felt very strongly in January-April, 2010
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# Housing Market: Next Twelve Months (2)

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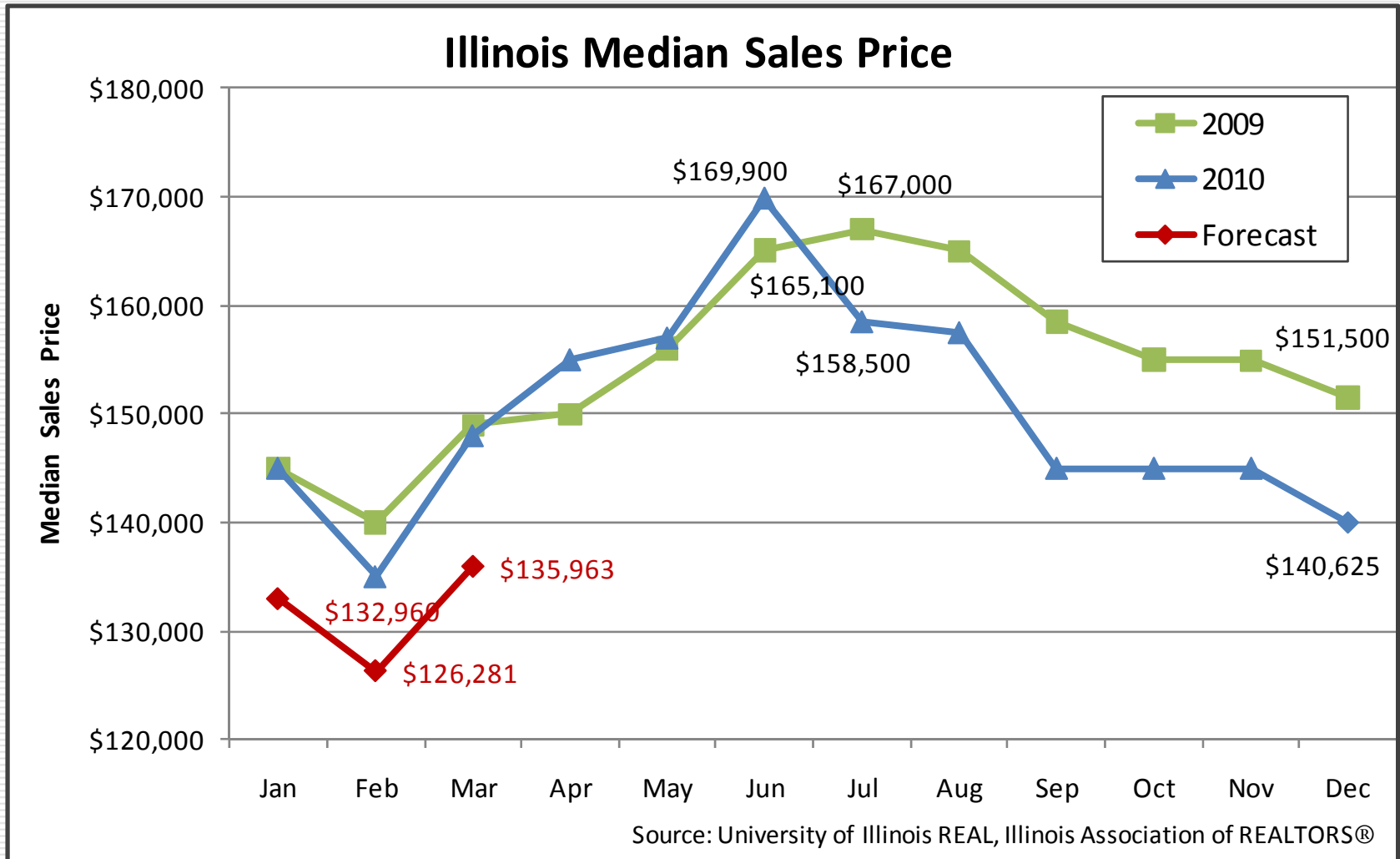
- ❑ First quarter of 2011
    - ❑ Negative year-over-year sales in both IL and Chicago
    - ❑ Month-to-month sales negative in January but changing to positive in February and strongly positive in March
  - ❑ Rest of 2010
    - ❑ For IL and Chicago – annual negative for all months but 7 of the months (especially mi year) estimated to be positive
  - ❑ But .... Continued, moderating declines in median prices
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# Housing Market: Next Twelve Months (3)

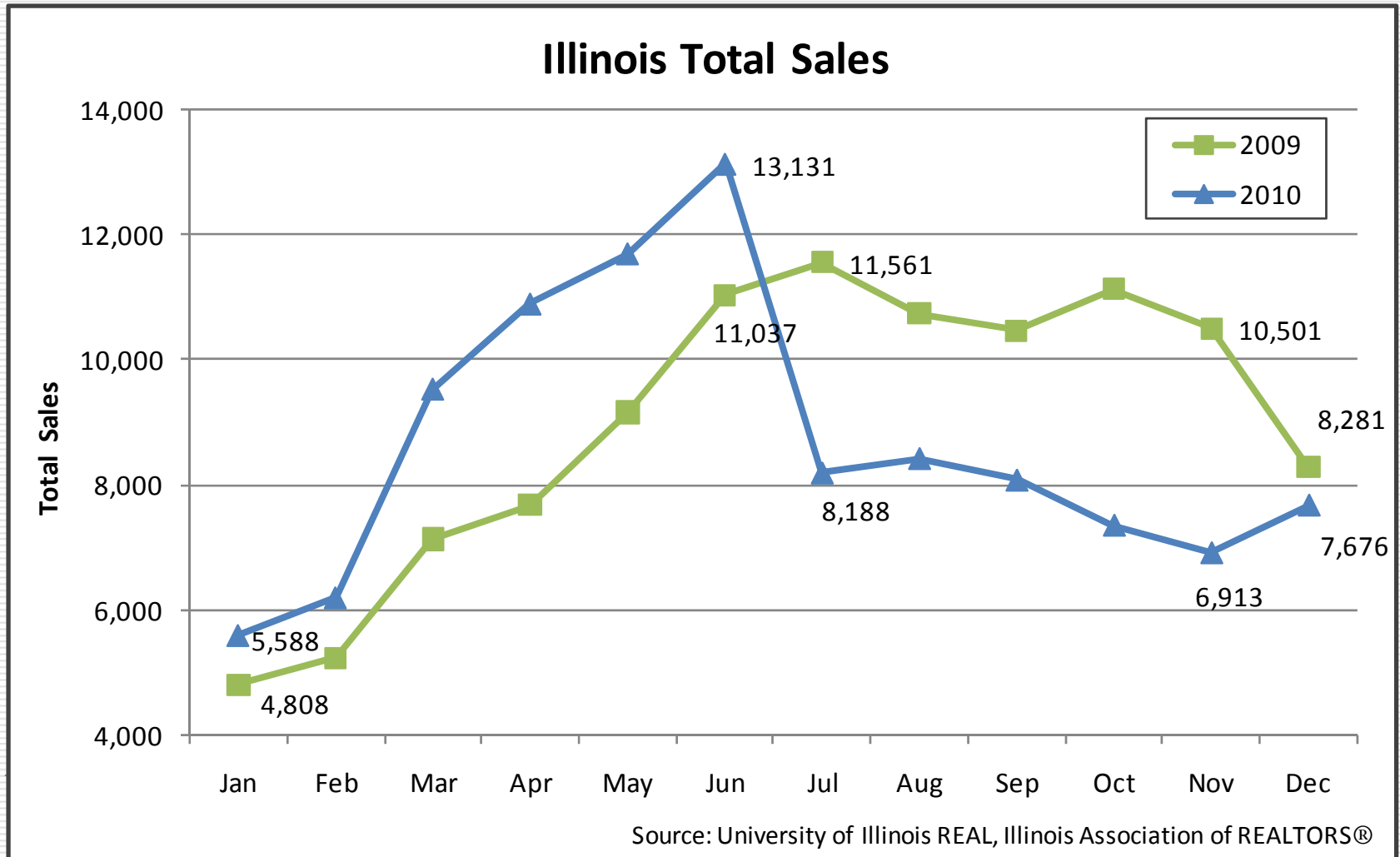
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- In first decade of 2000, housing market lead the economy, directly
  - Directly: Through sales, transactions, construction
  - Indirectly: through provision of a source of credit to fuel consumption (75% of Gross product on the expenditure side)
- Now, housing market responding to the economy
- Consensus forecasts suggest moderate decreases in unemployment rates, especially in Midwest
- For Illinois – next few months will indicate how “market” responding to tax increase
  - Bond rating may improve – potentially saving millions of dollars in interest payments
- Business may relocate or expand elsewhere

# Illinois Median Sales Price, 2009, 2010 and Forecast for 1Q 2011



# Illinois Sales, 2009, 2010



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